

The Effect of Health Insurance Market Concentration on Premiums

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Abstract

This paper empirically investigates whether higher market concentration in the individual health insurance marketplace leads to higher premiums. Under this theory a more concentrated market should lead to higher prices charged. Relying on a fixed effects panel identification technique it found with increased market concentration measured using the Herfindahl-Hirschman Index (HHI), premiums initially drop but rise after an HHI value of approximately 3600 to 4100 or 529. This finding supports the theoretical prediction that the relationship between market concentration and premiums is convex.

Key words: Market Concentration, Health Insurance, Health Care

JEL category: C01, C23, I13

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